The MORTGAGE BANKER

VOL. III—NO. 12 JUNE 15, 1941

The Importance of Advertising in Mortgage Profits

The author rates newspapers the best advertising medium for the mortgage man's money

By L. E. MAHAN

THAT old phrase, *It Pays to Advertise,* is as true today as it ever was. You may have a profitable mortgage business without advertising, but it will be more profitable if you have a carefully worked out advertising program.

The mortgage banker who says advertising is not necessary to his business is generally one who is not alert to his opportunities. The mortgage business is changing rapidly before our eyes and we must constantly sell our goods to the public and advise them of our services.

Let us look at several advertising media. Let us see how each one can be used by a mortgage house. First, let us consider *billboards.*

I have often discussed billboard advertising with other mortgage bankers, and found a variance of opinion; some advocate it, others do not. In advertising, we must assume that people are either customers or *potential* customers. Any medium must be valued from the standpoint of how *many* people it reaches. Billboard advertising is not cheap. It is like all other advertising in this respect; we usually get what we pay for. To place billboards in obscure parts of the city, and in positions where they are not usually seen by a great number of people, is useless expenditure. It is necessary to make a complete study of the location of the billboard, and a very careful check of the traffic passing its location.

Regardless of how profitable your mortgage business is now, it will be more profitable if you advertise declares Mr. Mahan in this review of the different advertising media for mortgage bankers. Mr. Mahan is president of L. E. Mahan & Company of St. Louis and a member of the MBA Board of Governors. He contributed "How to Expand Your Trading Latitude" to the December 1, 1940 issue of The Mortgage Banker.

Originally, there was no particular agency through which billboard advertising could be appraised. We now have what is known in advertising circles as the TAB, or the Traffic Audit Bureau. The TAB performs the same function for outdoor advertising that the Audit Bureau of Circulation does for newspapers and magazines of paid circulation. It is recognized as the official organization for verifying outdoor advertising and is sponsored by the American Association of Advertising Agencies, the Association of National Advertisers, Inc., and the Outdoor Advertising Association of America, Inc. In other words, we can now get expert advice and data on given locations; and we can measure to a high degree the drawing appeal of a billboard.

Some of the trends in outdoor life today seem to make outdoor advertising more beneficial than a few years ago. In 1920, for instance, there were 8,225,000 registered automobiles; in 1939, 26,201,-000. Private automobile passenger miles in 1925 were 200,000,000,000 as compared to 475,000,000,000 in 1938. Bus registrations were 108,000 in 1934; and in 1939, 138,000. In baseball, for instance, the attendance increased over 10,000,000 in 1938 as compared to 1936. Other outdoor sports showed a relative percentage of increase. All of this would indicate that outdoor advertising has a much greater audience than it had a few years ago and this audience is increasing.

Mortgage bankers can receive some benefit by placing their billboards or signs on buildings under construction as well as their signs in vacant windows of buildings under their control. But in the main, little results are obtained from such advertising, and the best results can only be procured from a well-developed and carefully thought out plan. One of the most successful mortgage bankers I know

of has found outdoor advertising to be of definite advantage.

Now let us jump to *radio advertising.* I do not believe there has ever been a *true* test of radio advertising for mortgage firms. We have traced some special programs over WBBM Chicago, WAPI Birmingham, KNX Los Angeles, WBT Charlotte, N. C., and others. Most of them have been local in character and "spot" advertising. It is my conclusion that this type of advertising does not pay. The radio audience consists largely of people who are seeking entertainment, and unless the advertising message can be consistently featured along with the entertainment or serial feature, it does not reach a receptive ear. Radio advertising is much more effective when the subject featured has an appeal to the largest number of people: men, women and children of all ages. I do believe, however, that radio advertising could be made effective if, for instance, it should attempt to sell the mortgage as a form of investment on a nationwide program. Assume for example that the Mortgage Bankers Association could develop an advertising campaign to promote its membership throughout the country. This, no doubt, could be effective; but for individual members to attempt, in a small way, to advertise their services by radio, is too costly for probable returns.

Newspaper advertising has proven to be, by far, the most effective for most mortgage bankers. The cost is within reach; and the advertising reaches the people definitely interested in the local concern. But in newspaper advertising too, we generally get just what we pay for; and before any advertising program or budget is established, careful studies should be made of the newspaper in which the advertisement is to be run and the space to be used. It should be carefully studied from a typographical standpoint, and properly timed. The paper of larger circulation is, as a rule, the cheapest form of advertising. The common fault of mortgage advertisements is that enough white space is not used. I believe that when a company is well known and well established, the name of the company and a brief statement that real estate mortgage loans are solicited, is sufficient. The telephone number and address should always be carried. There are definite sources of checking newspaper circulation.* In estimating the cost of advertising, it should be based on the number of people who will see it.

In calculating the line rate of newspaper advertising, it is a good practice to figure how much in dollars and cents an agate line costs per 1,000 of circulation. Even assuming that only one-tenth of the circulation would see the advertisement, it is the cheapest form of advertising in any metropolitan area. Unless the mortgage banker has particular ability in advertising, I would recommend that he employ professional services. A poorly planned advertisement is a waste of money. It has been my experience that what might appear to be cheap advertising is, in the long run, more expensive when based on the factor of how many people it reaches. If we pay $25 for an advertisement in a newspaper of million circulation, it is obviously cheaper than one in a paper of forty thousand circulation.

As to *classified advertising,* it has been my experience that this medium is most effective for advertising specific properties or services. Assuming that we have a house or business property to sell, the most logical place to bring our story to the readers is through *classified.* It is an inexpensive and effective way of getting the attention of those specifically interested.

As to *advertising specialties,* such items as carpenter pencils, blotters, calendars, etc., are effective media for bringing our name before the established clientele and prospects. It is also advantageous for the solicitor to have some item which he can leave with the prospect at the time of his call or conference.

Advertising has its disadvantages as well as advantages. The disadvantage of institutional advertising is that it will bring to the average office a great many inquiries for inferior loans. In other words, the ratio of loans closed to inquiries received will increase tremendously. It is, therefore, important that in establishing any advertising budget or program, the mortgage banker should be prepared to handle inquiries expeditiously. Inspections should be made promptly and definite answers should be given to all inquiries. Whenever a piece of property has been inspected, a record should be made for the office with the definite recommendations of the investigator. This card is filed under street and number. Over a long number of years the cards will be very helpful in enabling the office to make decisions without actual inspections.

* One is the Standard Rate and Data Service; another the Audit Bureau of Circulation reports.

MBA NOTES

The Milwaukee MBA has adopted a resolution calling on all members to refrain from using the terms "no commission" and "no service charge" in their advertising. As previously reported, a resolution has also been adopted recommending that a minimum service charge of 1 per cent be made on all construction loans. (*See this issue of Local Chapter News for action of the Oklahoma and Detroit chapters on charges, commissions and rebates.*)

The regular Spring meeting of the MBA Board of Governors is scheduled for June 20th at the Knickerbocker Hotel in Chicago. The executive committee meets the day before. Among the committee reports to be heard will be that of the nominating committee which will contain the nominations for president, vice president and the vacancies on the Board of Governors.

With the next issue you will begin to read about the plans for MBA's annual convention in New York in October. These plans, we predict, will include some agreeable surprises for MBA members.

As a commendable example of local MBA chapter service to members, here is a page from recent Texas MBA experience: The state legislature recently passed a law which, among other things, had to do with publication of legal notices, etc. Many mortgage lenders concluded that it meant that notices of trustee's sale of real property must be published in newspapers. T. A. Blakeley, new Texas president, recently dispatched a copy of the bill to members with his opinion and that of three capable real property attorneys pointing out that the law will not make it necessary to publish trustee's sale notices. This is the type of small but vitally important service that members appreciate and have a right to expect—if the chapter is alert to its opportunities.

Tabulating Machines in Mortgage Bookkeeping

They perform like magic but to use the particular kind described here you should have about 30,000 loans

By HENRY DONAHOWER

WHEN accounting systems come up for discussion we are talking about something as individual as your own nose. It is almost as difficult to generalize on methods employing just manually operated bookkeeping or posting machines as it is to generalize on a comparison of this method and the streamlined, production-line method known as automatic machine bookkeeping or tabulating. Both methods have their place in real estate loan accounting.

All MBA members are familiar with manual record keeping, and more or less familiar with the tabulating or punch-card system. You know that a machine called a "tabulator" or "printer" reads and prints information which is expressed by means of a hole or a group of holes punched in a card. You can see where advantages accrue from a method which permits an extreme of 80 pieces of significant information to be recorded on a card 3¼ x 7½ inches in size and which an experienced girl can turn out at a rate of 300 to 500 per hour. These can be sorted by a machine at the rate of 24,000 per hour and the information can be printed at a speed of 3,000 cards per hour.

These are some of the good points about the form of magic called tabulating. It has many others — but it has drawbacks, too. In the first place you can't *buy* these machines.* You *rent* them, and the rent is *high*. Another thing — and it is something many people overlook — the information to be recorded has to be *converted* to tabulating through the medium of a punch card and then *translated back* to its original form — that is, something readable.

It is because of these problems and the answers which have been worked out that reveal in a large measure whether or not tabulating should be applied to *your* particular accounting system.

There are very few mortgage banking houses with a loan volume large enough to justify the use of the particular kind of tabulating machines described by Mr. Donahower, who is with The Cleveland Trust Company. But his interesting description of their general efficiency gives you a glimpse of what a greater use of machine methods can do for you in the accounting and servicing ends of your business. We shall present in future issues articles describing less complicated bookkeeping machines and methods which can be profitably used by the large majority of MBA members.

Let's examine this machine rental problem a moment. A minimum installation will probably involve a rental charge of over $800 per month for machines alone. This amounts to about $5.00 per available hour. Therefore, you are obliged to keep those machines busy, and the ordinary mortgage portfolio isn't large enough to do it. Loans are usually of such a nature that you are *too* busy for a few days; then the machines are idle for a long period. So when you think of machine bookkeeping, think in terms of your entire institution and not just the mortgage end. And remember this, those machines won't collect the payments or talk "turkey" to your delinquent borrowers or answer the customers' questions — and you *still* have to hire people to run them.

Now let's look at this conversion and translation operation which must be performed.

It is an extra operation to punch a card by hand but when you can use that one card several times, to record the same information in different places, you offset, or more than offset, the original slow-down.

Now you can use that first card in two ways: (1) You can punch enough information into it so that it will print two or more necessary things such as a daily collection journal plus the posting, plus valuable control reports; or (2) You can use that first card to *automatically* punch other cards. I am thinking of an interest rate that remains constant. A machine called a multiplier will pick up that rate and multiply it by the principal balance due and automatically punch the interest set-up. Even the name and address card is worthwhile, because you will use it for identification on various reports and for billing every month or every quarter as long as the loan is on the books. A point often made is that the machines are so fast that you still complete a given operation long before the slower manual method. That is true, but you still pay for the converting, and so much for the machines that your cost per item can go away out of bounds.

There are very few people in the mortgage business today who can justify tabulating *solely* for real estate loan work. In the first place, you need a large volume, probably over 30,000 loans. Secondly, you should have a large proportion of "clean" loans — loans which amortize steadily and whose interest rate remains constant. Then you *automatically* punch the transaction card *in advance,* because the card used to make the bill can be used to post the payment. When you don't collect the amount billed, another card must be punched.

Mortgage accounting or statistics are

(Continued on page 7, column 3)

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* True for this particular type, but most machines used in mortgage accounting systems can of course be purchased outright. Mr. Donahower is describing a very elaborate system as used by a large bank.

The Competitive Pattern in Farm Mortgage Lending

An inquiry into the question as to why farm rates have not tended to become more uniform

By DONALD C. HORTON and HAROLD T. LINGARD

To what extent does competition in farm mortgage lending come to a focus in the interest rate charged? This is a question of more than academic interest. For example, to what extent is it reasonable to expect that the ability and willingness of federally sponsored lending institutions to offer farm mortgage credit at reduced interest rates will induce private lenders to reduce their interest rates? Also to what extent is a reduced rate of interest alone a sufficient incentive for borrowers to shift their loans to the lower rate lenders? To answer such questions it is necessary to take account of the nature of competition in farm mortgage lending, and particularly, to appraise the significance of interest rate competition in this field. It is possible here to do little more than to indicate some of the factors to be considered in such an appraisal.

The accompanying charts suggest certain pertinent questions. If competition in farm mortgage lending tends to come to a focus largely in interest rates, why has the spread between the rates charged by different lenders continued? In view of the wide difference during the 1920's between the rates charged by the Federal land banks, the joint stock land banks, and insurance companies on the one hand, and by commercial and savings banks, individuals, and other private lenders on the other, why did the first group of lenders hold only about 40 per cent of the farm mortgage debt at the beginning of 1933? Moreover, with current rates charged by these same lenders still much below those charged by local lenders, why do the Federal land banks, the Land Bank Commissioner, and life insurance companies even now hold only about one-half of the total?

The answers appear to be found in part in the qualitative differences in the credit service furnished by different lenders. The Federal land banks and the joint stock land banks were restricted as regards the type of farm mortgage credit service to be furnished. These restrictions were designed in part to provide a loan portfolio of sufficiently high quality, and sufficiently standardized, to serve as security for high-grade bonds. The extent to which these agencies, and later the Federal Farm Mortgage Corporation, have competed with local lenders has been determined in part by such restrictions. Life insurance companies have been most active in making relatively low-risk and low-cost loans in areas where a substantial volume of larger-than-average size loans was available. In part, therefore, self-imposed limitations have prevented these institutions from operating in full competition with local lenders. Local lenders have tended to make more of the small-size, short-term, high-risk, and otherwise high-cost loans, and their interest rates have reflected in part these qualitative differences in the credit service furnished.

Members are familiar with the MBA Farm Mortgage Committee proposal to further extend FHA mutual mortgage insurance to farm loans. This article originally appeared in "The Agricultural Situation" published by the Department of Agriculture under the title, "Competition in Mortgage Lending." The facts and conclusions presented by the authors are interesting, particularly when considered in connection with MBA's farm program.

Since the types of loans made by the land banks and insurance companies have been similar in many respects, there has been a tendency for competition among these institutions to take more the form of interest rate competition. In recent years this competition has doubtless been in part an explanation of the reductions in rates charged by insurance companies on new farm mortgages. Although limited information on interest rates charged by local banks and individuals indicates some reduction in recent years, the reductions have not been as pronounced as for insurance companies. Local lenders apparently have continued to operate more in the type-of-credit strata less exposed to centralized lender competition.

Some evidence on the type-of-credit strata in which different lender groups have been most active is afforded by data on size and contract terms of mortgages recorded. According to estimates by the Farm Credit Administration, 25.5 per cent of the number of all farm mortgages recorded in 1938 were for amounts of $500 or less and 45.7 per cent were for $1,000 or less. For insurance companies, however, only 1.7 per cent of their loans were for $500 or less and only 5.7 per cent were for $1,000 or less. For the Federal land banks and the Land Bank Commissioner the comparable percentages were 7.1 per cent and 25 per cent. Individual and commercial bank mortgage loans were in sharp contrast to those of the centralized lenders as regards size; 34.2 per cent of the loans recorded by individuals and 27.3 per cent of the loans recorded by commercial banks were for $500 or less and 56.5 and 49.8 per cent, respectively, were for $1,000 or less. Data compiled by the Bureau of Agricultural Economics for the period 1917-35 indicate similar differences in average size of loans made by the several lender groups.

No data for the years since 1935 have been compiled on the average contract terms of mortgage loans recorded, but data

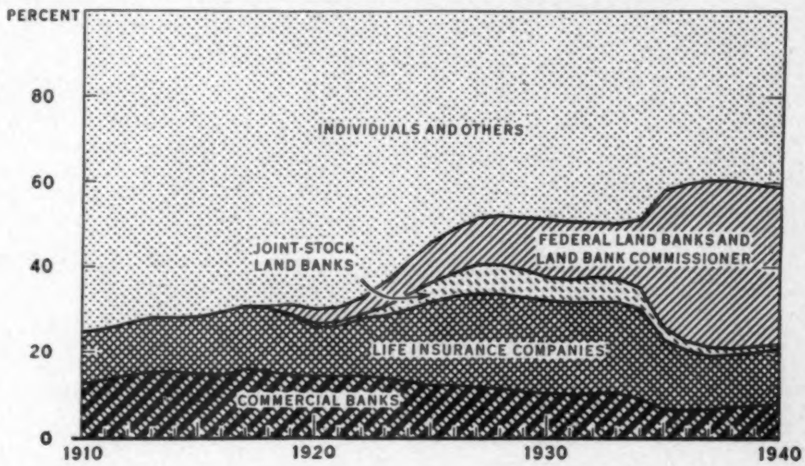
for selected periods, 1917-35, indicate that loans by commercial banks and individuals were for relatively short periods, those by insurance companies were for somewhat longer periods, and, of course, those by the land banks were relatively long-term loans. A noteworthy feature in regard to the trend of the average contract term of mortgage loans made by commercial banks and individuals was the tendency for the average to decline during the period 1917-35. This suggests that one effect of land bank and insurance company competition for loans in the 1920's was to shift away from local lenders those loans adapted to long-term lending, leaving the local lenders with an even larger proportion of their loans carrying shorter terms than previously. There apparently is little to support the thesis that land bank competition has tended to induce local lenders to grant longer term loans. The evidence seems rather to support the thesis that competition operated to cause local lenders to specialize more in those types of credit service that were not suited to the loan standards of the public and private centralized lending agencies.

It is difficult to say how much of the reduction during the early and middle 1930's in interest rates charged by banks and other local lenders reflected a reduction in the proportion of the loans made in the high interest rate areas, and how much of it was due to the fact that such lenders in other areas restricted their lending operations to loans that would justify low interest rates. The presence of such factors makes very difficult an interpretation of short-run trends in the interest rates charged by these lenders.

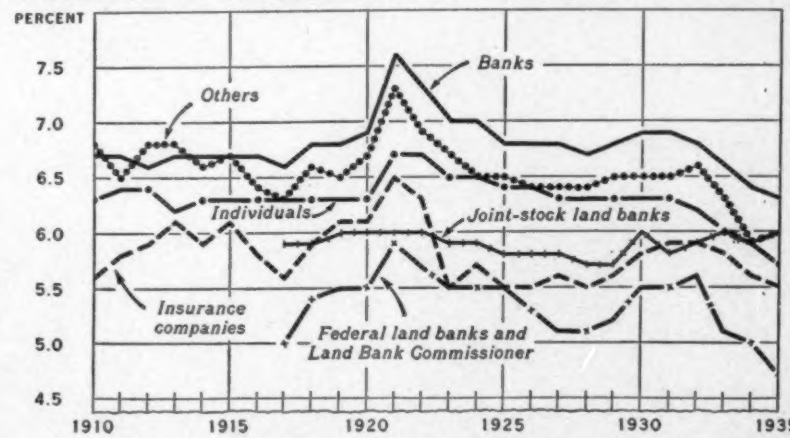
It should be noted also that contract interest rates are not the best measure of differences in the total cost of credit from different lenders, as some lenders include most of the loan charges in the interest rate whereas others charge special fees and commissions in addition to the interest rate. It is possible, therefore, that interest rate competition has been reflected in part in the absorption of certain of these special charges by the lender, and that the trends of effective interest rates charged by different lenders may have tended to converge somewhat more in the last two decades than is indicated by the accompanying chart on that subject. Nevertheless, there are still wide differences between the effective interest rates charged by local and centralized lenders, and one important factor tending to maintain these differences is the qualitative peculiarities in the type of credit furnished by the several types of lenders.

What bearing do these considerations have on the prospects for further reductions in farm mortgage interest rates? For one thing, there is a real question as to how much a reduction in the interest rates charged by existing Federal mortgage credit institutions can be expected to benefit indirectly borrowers from those private lending institutions which now charge relatively high rates. Present borrowers from the Federal mortgage credit institutions would benefit directly, and others with mortgages conforming to the loan standards of those institutions would benefit indirectly through the competitive influence of the lower interest rate, but it is probable that type-of-credit stratification in the farm mortgage credit market is sufficiently rigid to confine the indirect benefits of such federally sponsored competition to a relatively small group. To obtain lower interest rates for all groups might require either that the federally sponsored credit units offer a loan service more directly in competition with local lenders or that methods other than federally sponsored competition be adopted. It would seem that any measures designed to reduce farm mortgage interest rates for those now paying relatively high rates will have to take account of the competitive pattern of farm mortgage lending and the reasons for the interest rates now charged by local lenders.

OUTSTANDING FARM MORTGAGE DEBT, PERCENTAGE HELD BY PRINCIPAL LENDER GROUPS, JANUARY 1, 1910-40



AVERAGE RATES OF INTEREST CHARGED ON FARM MORTGAGE LOANS RECORDED BY VARIOUS LENDER GROUPS, UNITED STATES, 1910-35



What is the Best Method to Use in Collections?

Under present day conditions these mortgage men recommend that no notices be sent out

MANY mortgage bankers have pointed out in recent issues of *The Mortgage Banker* that if you cannot enlarge your profits from income, try the cost end. One important item in costs is collections. Sometimes they can become very expensive. Some mortgagees send notices of payments to be due to all mortgagors. Others use coupon books. Some send no notices at all. What are the relative merits of each method? How successful has each been? Two mortgage men set forth their views of the matter here.

F. G. Davis, assistant treasurer of the Mortgage Investment Corporation of Dallas, writes:

"The experience I detail here is confined to FHA loans of my own firm which is servicing several thousand loans in fifty or sixty Texas cities spread over most of the state. In a servicing institution of this type, where the spread of from a half or three-quarters of one per cent service fee has to cover expenses of paying taxes, insurance, etc., as well as collection and bookkeeping cost, economy of the collection procedure is of primary consideration. With this in mind, as well as the equally important consideration of our correspondents' welfare, we have worked out and follow a policy which we feel balances the two factors and properly coordinates the use of letters, telegrams, telephone calls and, where necessary, the outside collector. Briefly our system embraces:

1. *We do not send notices prior to the due date.*
2. *Our first notice to the borrower is sent about 11 days after due date and is followed up on the 18th day.*
3. *On or before the 45th day of delinquency, a special dictated letter is addressed to the borrower, giving him until the 55th day to make payment of both past due installments.*
4. *On the 60th day, definite action on the loan is recommended.*

"Breaking this down, note that letters are used almost entirely until the loan is 50 or 60 days past due. The most controversial point in connection with the early stages of our collection procedure is, of course, the fact that we neither send notices of payment due nor have pass books. Our first notice to the borrower is by letter on or about the 11th day of the month.

What Their Records Show

"This first letter, which is multigraphed but personally signed, states that we are calling the delinquency to their attention as we feel the remittance has been overlooked or misdirected. We also warn of the late charge if the payment is not received by the 15th. Our statistics show that it is necessary to send this letter to only about 7 per cent of the borrowers and only 2 or 3 per cent of the 7 have actually overlooked their remittance and the balance would not have sent payment regardless of notice or pass book.

"This contention is borne out by the fact that our follow-up letter of the 18th, which is also multigraphed and personally signed, goes to only about 3½ per cent of the borrowers. This letter assesses the usual 2 per cent late charge and is more insistent on the payment being made, but is still in a friendly vein so we will not use up our 'ammunition' before the loan gets seriously delinquent.

"It is *after* the 45th day when I feel there should be a concentrated drive on delinquent borrowers and use the combined efforts of letters, telegrams, telephone calls and the outside collector if available. By this time the past due payments have been reduced to less than 2 per cent of our loans. Consequently we can better concentrate our efforts.

"A letter is written to these borrowers advising that foreclosure will be recommended unless both past due payments are received within ten days and after this period expires we contact the borrower by telephone and through agents in other cities so that future action can be determined.

"On properties located in the smaller towns in which we do not have agents, a telegram is used. If on the 60th day we have still been unsuccessful in our efforts, we recommend to our correspondent that foreclosure be instituted and forward to the Substitute Trustee, who is usually a local attorney, the notices of sale to be posted 21 days before sale date.

"At this time three payments are past due and we advise the Substitute Trustee of the full amount due and request that he contact the borrower and advise him that unless all three payments are paid immediately, notices will be posted. Incidentally, it is necessary for us to refer the loan to the Trustee or Substitute Trustee in only about one case a month out of every thousand loans. Of these cases, notices are actually posted in only about one case in ten.

"The ultimate determination of the effectiveness of any system is the cost and results. In our case it can readily be seen that the expense is well within its proper limits and the results are borne out by the fact that during the four years of our operations, excluding our Federal National Mortgage Association loans, we have had only three foreclosures or an average of less than one a year."

R. D. Walton, vice president, American General Investment Corporation of Houston, analyzes the problem in this way:

"Coupon books, of course, are intended as a convenience to the customer and to the cashier receiving the payment. However, it has been found that the use of these books has been unsatisfactory and confusing when additional payments were made. Many clients neglect to bring or send their coupon and this necessitates a duplicate being made in the office. Then when the succeeding payment becomes

The MORTGAGE BANKER

Published Semi-Monthly by the

MORTGAGE BANKERS ASSOCIATION OF AMERICA
111 West Washington Street, Chicago

DEAN R. HILL ... *President*
FREDERICK P. CHAMP ... *Vice President*
GEORGE H. PATTERSON ... *Secretary-Treasurer*

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JUNE 15, 1941

FROM THE PRESS

For the nation as a whole, the portion of school support borne by the state increased from an average of over 17 per cent in 1930 to nearly 29 per cent in 1938. In the nine states which have put a ceiling on their real estate tax rate, the jump was from an average of 13 per cent to 41 per cent. These states were those which, in 1930, had a comparatively narrow base for their school financing. After they put a limit on their real estate tax rate, their base widened immediately and became much broader than the national average.

The government has been spending about $20,000,000 annually in agricultural experimentation work. So, asks one real estate authority, why cannot at least a tenth of this sum be allocated for two or three years to determine how we can get housing costs down. From 40 to 70 per cent of the cost of a house is in the outlay for construction. If construction costs could be cut 25 per cent it would mean a saving of 21 per cent in the home buyer's monthly bill.

One large building society in England holds mortgages on about 300,000 properties (how would you like to service that many loans?). Its records show that in 1940 only 480 homes represented by these loans were totally destroyed by bombs. Two thousand were badly damaged but can be repaired and 7,000 were slightly damaged.

What Is the Best Collection Method?

(Continued from page 6)

due, the customer forgets that his previous month's coupon was not presented and sends the wrong amount in making his remittance. Printed schedules are sometimes used showing exact payments on a reducing plan for a period of years. These schedules have not been satisfactory because the average mortgagor is unable to follow them intelligently and adjust himself to any payments made in advance. Coupon books and printed schedules are expensive as a great deal of time is required for proper preparation. The stationery and printing for them is a large item and particularly since many are frequently lost and must be replaced.

"When notices of payments to be made are sent, they must be very carefully prepared so that the amounts indicated as due are exactly correct. Financial institutions lending money on first mortgage security realize that they are judged partly by their accuracy and that erroneous notices are considered by the public as being the result of a careless method of operation. Careful preparation of these notices constitutes a substantial item of expense in that experienced employees must be used to insure their being correct. A client will form a habit of depending upon receiving notices before making his payment. If notices go astray in the mail, he will cite as an excuse that his notice was not received. However, where the mortgagor realizes that his payment is due the first of each month and that no further notice will be expected, he is more inclined to see that the payment is made on the due date. When the client sends his check a few days in advance of the due date and the notice of payment is subsequently received, he will invariably call for an explanation of why he received a notice after his check had been mailed.

"I favor the procedure of no notices except in cases of delinquencies because present day differentials for the collection of mortgage loan payments are so small that the correspondent must be as economical as possible in the use of employee labor and expensive stationery.

"When a loan is closed it should be impressed upon the mortgagor that the responsibility is on him to make his payments automatically on their scheduled dates. Payments in even amounts are more easily remembered by clients than payments having odd cents. We adjust our payments to the next even amount above the exact figure of amortization. We write a letter to the borrower after the loan is closed, advising him the amount and date of his first payment. In this letter we tell the mortgagors that we do not send notices but that they will receive a receipt for each payment which will indicate the application to principal, interest and reserves. We remind him that retention of these receipts will assist in the preparation of income tax returns and that his interest payments are in this manner readily available for computation of deductions. This advice is found to forestall inquiries about interest paid and obviates the practice of sending this information to each mortgagor yearly when income tax returns are being prepared.

"Most customers resent notices of any kind and the less correspondence exchanged will result in more economical and satisfactory collection operation. For efficiency, economy and adaptability I favor 'no notice at all'."

MACHINE BOOKKEEPING

(Continued from page 3)

often put on tabulating machines as a subsidiary application. If your bank or insurance company or title company has a tabulating department where the accounting is done for other branches of the business, mortgage loan work can often fit in very nicely — but it requires a *real job* of cost analysis to determine whether money can be saved by the move. This statement has been made by dozens of executives and supervisors: "Tabulating costs us just as much as the former method, but we *get more.*"

I think they are right. When they say "more" they mean statistics and here is where tabulating machines do an outstanding job. You don't have to be warned about going too far with statistical reports. You know it is important to control your so-called "control" reports. But today mortgage men are interested in significant figures and the tabulating method will give you those figures cheaply and quickly if it is a *subsidiary application.* It isn't worth installing just for statistics.

Our Bookkeeping Time Was Cut in Half

By J. F. MURRAY

Too much cannot be said for the machine accounting systems used by many of the larger servicing agencies. Most of us, however, in the mortgage field still use the manual system. My observations here are confined solely to the actual bookkeeping problems involved in handling loans after they have been closed and set up on the books, and my experience has been with the manual system.

Most mortgage firms, I think, have systems that are adequate for keeping an accurate and complete record of every transaction affecting each loan they are servicing, and to furnish their principals as much of this information as may be desired. I personally believe our chief fault is that we often have *too much system and too many records*. In my opinion, any excessive accounting cost is due entirely to duplications, which I realize cannot be entirely eliminated.

In our office, before lower interest rates and correspondingly reduced participations made accounting expense as important as it is now, we entered our collections in detail on our loan record cards and on our cash book. We then transferred to ledger accounts for each investor all details of the collections on his loans. We still had to transfer this data to our remittance sheet. Now we use a cash book with a separate section for each insurance company. The sheets in this book are made in pairs, the two sheets being in different colors and the second sheet being perforated so it can be easily removed. Entries are made with indelible pencil, a hard carbon paper being placed over the second sheet and a heavy cardboard under it so that a clear carbon copy is made.

When remittance date arrives, we total the columns on the sheet (or several if more than one is used during that period) remove the carbon copy and to it attach our check for the net amount shown to be due the investor. The original remains in the binder and is our permanent record of cash receipts. All items are transferred as totals to our journal. By making this change, we now have *two* operations instead of *four;* and we have reduced the total time required for recording and remitting collections by about 50 per cent.

This change was the outgrowth of a new and separate set of records which we worked out when we began to make FHA loans. The same procedure is followed with the FHA so far as the cash book and remittance sheets are concerned. Our FHA loan card contains a complete record of receipts and disbursements of trust funds, as well as all information regarding the loan itself. This trust fund record shows the balance in each of the three trust accounts and the total debit or credit balance. These items are not recorded elsewhere except on our collection and remittance record, which I explained before. The loan record cards, therefore, serve as our ledger record of trust fund accounts. Disbursements from trust fund accounts are made by check and posted to the loan record card and to the control account in the journal at the same time. We balance the trust fund by comparing the total of the balances shown on the loan cards with the control which we keep up to date in our journal by transferring totals from the collection and remittance sheets.

On page 3 of this issue are some observations on a certain type of machine bookkeeping. Here are some on manual bookkeeping and what one mortgage firm did to cut their costs. Mr. Murray is with The Murray Investment Company of Dallas.

We make up the FHA loan card once each year for the ensuing twelve months. This saves much of the cashier's time during the part of the month when collections are heavy.

We send no notices or receipts except in connection with conventional loans with annual, semi-annual or quarterly due dates. We do, however, advise the borrower of the amount of his monthly payment when his loan is closed and as often as changes in total payment make such notices necessary thereafter.

There are, of course, many details of our system which I cannot explain in this limited space, but which we handle with what we think is with minimum effort and expense.

I am convinced that by the use of the loan cards as ledger record of trust accounts, the collection and remittance record as combination cash book and remittance sheet, the transfer of total credits from the cash book to the various accounts on the journal in one entry, and the transfer of total debits to trust fund accounts from the check register to the journal in one entry, we have eliminated the most expensive duplications and the ones most commonly found in manual systems. I think some or all of these features could be adapted to almost any set of records.

MISCELLANY

Building Activity doesn't run by size of city. Last year some of the largest cities did less building than others half their size. In order of dollar volume of building, the fifteen cities that showed the most construction last year were New York, Detroit, Los Angeles, Philadelphia, Washington, D. C., Queens (New York City), Chicago, Brooklyn, San Diego, San Francisco, St. Louis, Seattle, Baltimore, Houston and Long Beach.

In 1934 encumbered owner-occupied dwellings in most of 52 leading cities covered by a government survey were mortgaged on the average up to 50 or 60 per cent of their value; 59 per cent had mortgages amounting to more than one-half, and 31 per cent to more than 70 per cent of their value.

The monthly income of the average defense worker is such that he must have living quarters renting from $20 to $30 monthly, says Coordinator Charles F. Palmer. It is in this type of housing where the greatest shortage lies today.

More houses will be built in this decade than in the last ten years because more people will reach marriageable age. Last year there were 11,560,000 persons from 20 to 24 years of age as against only 10,870,000 ten years before. That means more marriages, more houses, more mortgages.